

AR14

PanCanadian Petroleum Limited

INTERIM REPORT 1972 THIRD QUARTER AND FIRST NINE MONTHS

PanCanadian Petroleum Limited

P.O. Box 2850
Calgary, Alberta
T2P 2S5

PanCanadian Petroleum Limited and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENT

Assets:

Current assets					
Property, plant and equipment - net					
Investment in non-controlled companies					
Other assets					
Unamortized debenture discount and issue expense					

September 30
1972

\$ 21,716,069
196,214,807
6,861,711
252,612
644,953

September 30
1971

\$ 9,393,427
168,462,964
5,849,076
971,276
—

\$184,676,743

Liabilities:

Current liabilities					
Long term debt					
Deferred rentals					
Deferred income taxes					
Shareholders' equity					

\$ 8,072,380
47,708,336
129,344
51,048,331
118,731,761

\$ 9,146,277
25,835,374
237,754
45,287,896
104,169,442

\$184,676,743

Shares outstanding - September 30

31,204,139

30,462,176

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Source of Funds:

Net income					
Add - charges to income not requiring funds consisting of depreciation, depletion, deferred income taxes and amortization of debenture discount and issue expenses					
Cash generated from operations					
Issue of shares					
Long term borrowings					
Issue of debentures					
Bank loans					
Decrease in 1971 instalments on refinancing provided for in 1970					

First Nine Months
1972

\$11,299,084

\$10,847,484

13,981,173

11,741,547

25,280,257
85,511

22,589,031
71,697

24,335,673
—

2,000,000
3,258,268

49,701,441

27,918,996

Application of Funds:

Capital expenditures:					
Petroleum and natural gas properties - net					
Plant, production and other equipment - net					
Investment in Panarctic Oils Ltd.					
Bank loans - instalments					
Bank loans - retirements					
Dividends					
Miscellaneous					

15,920,596
3,131,240

14,244,979
1,345,240

19,051,836
1,004,105

15,590,219
1,572,818

2,187,498
7,810,629

2,187,499
4,568,994

4,679,727
(469,819)

303,332

CONSOLIDATED STATEMENT OF INCOME

	Third Quarter		First Nine Months	
	1972	1971	1972	1971
Income:				
Operating revenue	\$10,891,385	\$ 9,072,577	\$32,988,270	\$28,750,164
Miscellaneous	251,458	139,843	1,097,991	584,803
	<u>11,142,843</u>	<u>9,212,420</u>	<u>34,086,261</u>	<u>29,334,967</u>
Expenses:				
Operating	1,518,648	1,464,020	4,495,067	4,361,314
Administrative	631,735	452,848	1,702,159	1,250,624
Interest	945,292	505,741	2,628,152	1,533,810
Depreciation	796,554	565,863	2,347,116	1,695,518
Depletion	2,668,194	2,005,834	7,255,780	5,914,101
	<u>6,560,423</u>	<u>4,994,306</u>	<u>18,428,274</u>	<u>14,755,367</u>
Income before income taxes and extraordinary item	4,582,420	4,218,114	15,657,987	14,579,600
Provision for income taxes				
Current	1,221,895	1,150,327	4,358,903	4,131,928
Deferred	1,221,895	1,150,327	4,358,903	4,131,928
	<u>3,360,525</u>	<u>3,067,787</u>	<u>11,299,084</u>	<u>10,447,672</u>
Income before extraordinary item	—	—	—	399,812
Extraordinary item:				
Gain on conversion of bank loan from United States to Canadian currency	—	—	—	—
Net income	<u>\$ 3,360,525</u>	<u>\$ 3,067,787</u>	<u>\$11,299,084</u>	<u>\$10,847,484</u>
Cash generated per share	26¢	22¢	81¢	74¢
Income per share before extraordinary item	11¢	10¢	36¢	34¢
Net income per share	<u>11¢</u>	<u>10¢</u>	<u>36¢</u>	<u>36¢</u>

CONSOLIDATED OPERATING SUMMARY

	Third Quarter		First Nine Months	
	1972	1971	1972	1971
Production - net				
Oil and natural gas liquids - bbls.	3,337,691	2,640,309	8,847,285	7,694,766
daily average	36,279	28,699	32,289	28,186
Natural gas - Mcf.	15,471,835	13,380,983	52,562,738	47,015,536
daily average	168,172	145,445	191,835	172,218
Sulphur sales - long tons	11,595	12,976	40,791	43,808
daily average	126	141	149	160

Subject to adjustment and audit at end of year.

TO THE SHAREHOLDERS

Presented herein are the results of your Company's activities for the third quarter and first nine months of 1972. We are pleased to report a 16% increase in gross revenues and a 15% increase in crude oil and natural gas liquids production.

Exploration

A marine seismic program was completed near Tent Island in the Mackenzie Delta area of the Beaufort Sea. The operation successfully employed a hovercraft as a recording vehicle, the first usage of an air cushion vehicle for seismic work in this area. Geophysical operations were also conducted in British Columbia, Alberta and in Italy. A review of seismic data is currently underway covering the Norwegian sector of the North Sea.

Panarctic Oils Ltd., in which your Company holds a 9.03% interest, recently announced another natural gas success. This well, POR Drake B-44, a second step-out to the original gas discovery on Melville Island, is a further indication of the existence of major reserves in the Canadian Arctic Islands. It is expected that 23 wells will be drilled on Panarctic lands during the current drilling season which is now getting underway.

During the third quarter of 1972, your Company participated in the drilling of 18 exploratory and 13 development wells. Of the exploratory wells drilled, 1 was completed as oil and 5 were completed as gas wells. Development drilling resulted in 12 successful completions, 4 oil and 8 gas wells. Direct participation drilling completions for the year to date total 10 oil and 23 gas wells.

In addition, 139 wells drilled by others at no cost to your Company, but in which varying interests are retained, resulted in 14 oil and 96 gas wells during the third quarter. Cumulative totals for this program for the year to date are 303 wells, consisting of 27 oil and 212 gas wells.

Production

The Countess waterflood project is progressing successfully with the Countess Upper Mannville "D" Unit increasing its production from approximately 1,100 barrels per day to 7,000 barrels per day. The Lathom "A" Pool, and the Countess "F" and "H" Pools are expected to increase production as a result of full scale waterflood operations in January of 1973.

Net production of crude oil and natural gas liquids averaged 32,289 barrels per day during the first nine months of 1972 compared with 28,186 barrels per day for the same period last year. This is an in-

crease in gas production increased by 20 million cubic feet per day to 192 million cubic feet per day from 172 million cubic feet per day during the corresponding period in 1971. This represents an increase of 11%. Sulphur sales decreased to 149 long tons per day, a decrease of 11 long tons per day or 7% over the 1971 nine months sales of 160 long tons per day.

Financial

Gross revenue for the first nine months of 1972, reflecting the marked increase in production, amounted to \$34.1 million, an increase of \$4.8 million or 16% over the same period in 1971. Cash generated from operations for the nine month period increased by \$3.1 million or 14% to \$25.3 million, equivalent to 81c per share, compared to \$22.2 million or 73c per share the previous year. Net income from operations increased by 8% or \$.9 million to \$11.3 million. Not included in the comparative 1971 net income and cash generated figures is a first quarter extraordinary gain of \$399,812 from the conversion of a bank loan from United States to Canadian currency.

Blackfoot Pipeline

PanCanadian Petroleum Limited in association with Northwest Natural Gas Company of Portland, Oregon is progressing with the planning of a natural gas liquids transportation and marketing project called the Blackfoot Pipeline. The 1,000 mile long, ten inch diameter pipeline would run from the Edmonton area via Calgary and the Crows Nest Pass terminating at Portland, Oregon. Basic throughput in the pipeline will be feedstocks for Northwest Natural's planned substitute natural gas (SNG) plant in Portland. The economy envisaged in this \$50,000,000 project is a substantially reduced transport cost of LPG's between Edmonton and Portland.

General

Your Company recently provided for a \$25,000,000 principal amount 8¾% secured debentures dated November 1, 1972 to mature November 1, 1992. Net proceeds to be received by the Company, estimated at \$24,500,000 after expenses, will be applied together with internal cash generation to fund exploration and development programs and general operations for the last half of 1972 and for 1973.

Robert W. Campbell

Chairman of the Board and
Chief Executive Officer

Jim Taylor

President